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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 95-72
End User Common Line Charges	)	
	)	

COMMENTS OF GTE

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October 30, 1995

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SUMMARY

GTE opposes the use of a "cost ratio" approach for determining the number of SLCs to be applied to derived channel services. To obtain the information necessary to determine the cost ratio, the local carrier would have to develop or revise its recordkeeping, adding significantly to the regulatory burdens. Moreover, the *BOC NTS Cost Submissions* show that use of a cost ratio based on Common Line costs would be only marginally different than adoption of the SLC per-facility approach urged by a broad consensus of parties in this proceeding. Adopting a "cost-ratio" to apply SLC charges to derived channel services will not further the Commission's goal of establishing a fair and genuinely competitive telecommunications market.

A cost ratio approach accomplishes nothing toward more economically rational recovery of NTS costs. It would only change from one arbitrary NTS recovery scheme to another equally flawed arrangement. The better approach is to adopt an interim application of SLCs based upon one-SLC-per-facility, while proceeding with a comprehensive reform of access charge rules that embraces economically rational recovery of NTS costs.

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GTE Service Corporation and its affiliated domestic telephone operating companies ("GTE") responds to the FCC's request for comment on Non-traffic Sensitive ("NTS") cost data submitted by the Bell Operating Companies ("BOCs").[1]

BACKGROUND

On May 30, 1995, the Commission released a Notice of Proposed Rulemaking (the "NPRM" or "Notice")[2], seeking comment on the application of End User Common Line Charges (referred to as Subscriber Line Charges, or "SLCs") to local loops used with Integrated Services Digital Network ("ISDN") and other services that permit the provision of multiple voice-grade-equivalent channels to a customer over a single facility.

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1 DA 95-2089, released October 2, 1995 and DA 95-2148, released October 11, 1995.

2 *In the Matter of End User Common Line Charges*, Notice of Proposed Rulemaking, CC Docket No. 95-72, 10 FCC Rcd 8565 (1995).

One method, the "cost ratio" approach, proposed by the NPRM (at ¶ 27) for determining the number of SLCs to be applied to derived channel services is to base the number of SLCs upon the "ratio of the average LEC cost of providing a derived channel service, including line or trunk cards, to the average LEC cost of providing an ordinary local loop or T-1 facility." (footnote omitted) US WEST supported this option, and provided a calculation of that ratio for its serving area.[3]

In response to a Commission request, US WEST subsequently provided details of the components included in calculating its ratio.[4] For each type of access arrangement, US WEST's calculations included the components for the service drop, loop plant, main distributing frame, switch connection, and other related central office devices needed to provision the service, *e.g.*, ISDN line card, digital cross-connection panel.

On September 29, 1995, the Commission requested that the remaining BOCs submit comparable data (the "*BOC NTS Cost Submissions*"), and invited interested parties to review and to file comments on the information submitted by the BOCs.[5]

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3 Comments of US WEST Communications, Inc., filed June 29, 1995 at 3-5 and Appendix A.

4 *See* U S WEST *Ex Parte* submission, August 4, 1995.

5 *See* n.1 *supra.*

DISCUSSION

I. SINCE THE SLC RATE WAS SELECTED INDEPENDENTLY FROM ANY UNDERLYING RELATIONSHIP TO NTS COSTS, USE OF THE DATA PROVIDED BY THE BOCS TO APPLY SLC CHARGES WILL NOT RESULT IN MORE ECONOMICALLY RATIONAL OR COMPETITIVELY NEUTRAL NTS RECOVERY.

The NPRM seeks to re-examine the application of SLCs to services that permit the provision of multiple derived channels over a single facility. The Commission noted in the NPRM that "consideration of this issue must take into account competitive development in the interstate access market, the need to ensure fair competitive ground rules, and the need to preserve universal service in a changing environment."[6]

Use of the cost ratio approach proposed in the NPRM (at ¶ 27), however, will not accomplish the objective of ensuring fair competitive ground rules.

> First, the SLC rate level has no relationship to economic costs. Since an arbitrary price was selected through a political process, using an NTS cost ratio to determine the number of SLC charges to be applied does not address the need to use "economically rational pricing" for NTS recovery.[7]

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6 NPRM at ¶ 15.

7 *See* Speech by Reed Hundt, Chairman, Federal Communications Commission, Fall Business Conference, Competitive Telecommunications Association (CompTel), New Orleans, Louisiana, October 10, 1995 at 3-4.

Second, the SLC is used to recover only loop costs, yet the cost ratio approach proposed by the NPRM would include all NTS costs associated with a service. There is no basis upon which to include investments other than loop investments in a cost ratio computation when the result of that computation is to be used for recovery of only loop costs.

Third, the interstate jurisdictional loop costs to be recovered by the SLC (and the Carrier Common Line charge) is also an arbitrary amount. Interstate loop cost recovery is currently based on 25 percent of the total unseparated loop costs, even though on a nationwide average, only approximately 14% of all calls are interstate.[8]

In summary: Adopting a "cost-ratio" to apply SLC charges to derived channel services will not further the Commission's goal of establishing a fair and genuinely competitive telecommunications market. Instead, it will simply change from one arbitrary NTS recovery scheme to another equally flawed arrangement.

II. DEVELOPMENT OF A COST RATIO WILL REQUIRE CONSIDERABLE EFFORT, AND IF BASED UPON SEPARATIONS DATA, WOULD BE CONTRARY TO YEARS OF COMMISSION EFFORTS TO SIMPLIFY THE SEPARATIONS PROCESS.

The Commission acknowledged in the NPRM a significant drawback of the cost-ratio approach: "the need to obtain and analyze cost data."[9] In fact,

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8 47 C.F.R. §36.154(c).

9 NPRM at n.40.

several of the respondents in the *BOC NTS Cost Submissions* confirmed that the cost ratio can not be developed using existing separations records. For example, Bell Atlantic describes developing "surrogate booked recurring non-traffic sensitive service costs."[10] BellSouth states that it "does not maintain data for each non-traffic-sensitive (NTS) cost component for each service" and that the information provided "is an available approximation of the booked annual cost data for the Common Line category."[11] Ameritech says "[t]he jurisdictional separations process does not provide the service specific information," and explains that its data are based on "direct cost studies."[12] Moreover, US West explains that current Long Run Incremental Cost studies "were used to determine the per-line, monthly NTS cost component for each service."[13] Thus, to obtain the information necessary to develop the cost ratio, the local carrier would likely have to develop or revise its recordkeeping, adding significantly to the regulatory burdens.

Development of the cost ratio based on separations data would be a tremendous drain on the LEC's resources, since it would require considerable

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10 *See* Bell Atlantic Response to Data Request, CC Docket No. 95-72, filed October 18, 1995 at Attachment 3-4.

11 *See* Bell South *Ex Parte* submission, CC Docket No. 95-72 (Public Version), October 18, 1995 at 3.

12 *See* Ameritech *Ex Parte* submission, CC Docket No. 95-72, October 23, 1995 at unnumbered first page.

13 *See* US West *Ex Parte* submission, CC Docket No. 95-72, October 18, 1995 at unnumbered last page.

effort, would provide data useful only for regulatory purposes and would produce nothing that could be useful in a competitive environment. Specifically, GTE would have to revise mechanized systems and procedures to incorporate the new level of detail that would be required for cost ratio computation purposes only. This would require the development of new cost reporting and cost accounting procedures, the training of involved personnel, and the modification of a number of mechanized systems to retain the new information and integrate the new and greater level of detail into routing reports.

Even if new systems are developed to obtain the necessary information, it may not be possible to capture the new data for each of the services and components used in the cost ratio calculation. For example, the costs of loop plant cannot be reported by service type when it is constructed because it may be months before an individual loop is used to provide a service. Determining the "cost category" of the loop at the time a service is installed would require an allocation scheme based upon previous history or forecasts or other factors, which itself would be an arbitrary allocation. Further, a single loop may be used for residential service at one time, and for business service at another.

Moreover, incorporating the new level of detail into separations data that would allow direct development of cost ratio would be at odds with years of industry and Joint Board effort aimed at separations simplification. For example, prior to 1988, the separation of land and buildings was based upon the use made of the building or land. Use was determined by very detailed studies that figured how each square foot of space was used. These studies involved examination of floor plan layout drawings, or analysis of space occupancy reports (used in clearing house service expense to operating expenses and other accounts). The resulting allocation factors were used to assign land and building costs to up to ten different categories.[14] In 1988, as part of separations reform, these investments were consolidated into General Support Facilities, and, for Class A companies, apportioned on the basis of Big Three Expenses.[15]

Although the Commission should always be concerned about adding needless regulation, adding significant regulatory burdens to one class of carriers at this time would be particularly harmful. Since GTE's competitors would not be similarly burdened with these costs, this would cause a significant competitive inequity. As Southwestern Bell notes, "[t]he existence of competition for the provision of multi-channel services is well established."[16]

If the Commission nevertheless adopts a cost ratio approach, each local exchange carrier ("LEC" or "exchange carrier") should be permitted to develop its own "cost ratio." A mandatory, one-size-fits-all ratio based upon BOC data would introduce yet another layer of arbitrariness into NTS recovery for non-BOC LECs. Moreover, US WEST's recommended company-wide ratio approach

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14 Included were land, buildings, motor vehicles, aircraft, special purpose vehicles, garage work equipment, furniture, office equipment and general purpose computers.

15 *See* 47 C.F.R. §36.112(a).

16 *See* Southwestern Bell *Ex Parte* submission, CC Docket No. 95-72, October 11, 1995.

should not be used because it would create another subsidy flow due to averaging costs over a number of states -- 28 states in GTE's case.

In summary: The net result of adopting the cost ratio approach based upon separations records would be the creation of a new federal regulation that would consume enormous resources and would introduce another layer of arbitrariness into recovery of common line costs for only one specific service.

III. THE *BOC NTS COST SUBMISSIONS* SHOW THAT THE COST RATIO APPROACH IS NOT NEEDED.

GTE and other parties oppose the use of a cost ratio that is based upon NTS costs other than loop costs.[17] GTE agrees with NYNEX that "the only costs that are relevant when seeking to establish the proper level of assigned Interstate costs to be recovered via SLCs are those loop costs booked to accounts in the Common Line basket."[18] Examination of the *BOC NTS Cost Submissions* show that use of a cost ratio based on Common Line costs would be only marginally different than adoption of the SLC per-facility approach urged by a broad consensus of parties.[19]

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17 *See, e.g.,* Comments of Time Warner at 5.

18 NYNEX *Ex Parte* submission, October 24, 1995.

19 *See, e.g.*, National Telephone Cooperative Association ("NTCA") at 2; RTC at 3; Roseville Telephone Company at 2; Southwestern Bell at 3; Ameritech at 2; Cincinnati Bell at 3; Pacific Bell at 4; Bell South at 4; Time Warner at 4; Online Providers at 6; API at 3; CDT at 9; ITI at 7; TCA at 6; USTA at 6; MCI at 3.

With respect to ISDN Basic Rate Interface ("BRI") service, the information provided by the BOCs confirms the expectations expressed in comments that the cost ratio for loops used for ISDN BRI service compared to loops used for single line services is very close to one.[20] Bell Atlantic's ratio is 1.0, Pacific Bell's ratio is 1.03, NYNEX's ratio is 1.0, and Ameritech's ratio is 1.07.[21] US WEST does not provide a loop-only "cost ratio," but shows a ratio of 1.07 that includes all NTS costs.[22]

With respect to ISDN Primary Rate Interface ("PRI") service, the information provided by the BOCs shows that the cost ratio for loops used for ISDN PRI service compared to loops used for single line services is still a relatively small number. Bell Atlantic's ratio is 3.37; Pacific Bell's ratio is 4.67, NYNEX's ratio is 12.9,[23] and Ameritech's ratio is 5.68.[24] US WEST does not

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20 *See* Pacific Bell at 7, SWBT at 9, USTA at 11, MCI at 3, Cable and Wireless at 2-3, TCA at 5, and Bell South at 3.

21 *See* Bell Atlantic Attachment at 1 ($9.02/$9.02), Pacific Bell at Attachment 1 ($5.39/$5.12), NYNEX Attachment 1 at 1 ($18.24/$18.18 for the 1MR service), and Ameritech at Exhibit 2, 1-2 ($5.89/$5.51).

22 US WEST at unnumbered last page ($18.52/$17.34). US WEST's data also confirms that if a cost ratio approach were to be used for all services, the ratio used to apply the business SLC should be less than one.

23 The absence of individual data elements in the public version of the NYNEX submission does not allow GTE to determine with certainty that this ratio only includes loop costs.

24 *See* Bell Atlantic Attachment at 1 ($30.40/$9.02), Pacific Bell at Attachment 1 ($23.92/$5.12), NYNEX Attachment 1 at 1 ($235.11/$18.18), and Ameritech at Exhibit 2, 1-2 ($31.27/$5.51).

provide a loop-only "cost ratio," but shows a ratio of 10.6 that includes all NTS costs.[25]

This data suggests that the cost ratio approach is no better than a simpler approach such as applying a SLC per facility. In any case, whatever the "benefit" of using a "cost ratio," it would be far outweighed by the significant costs of developing and implementing the cost ratio approach. For ISDN BRI, use of the cost ratio would result in no discernible difference in NTS cost recovery when compared to use of the SLC per facility approach. For ISDN PRI, given the small number of PRI services as compared to all other services, even a cost ratio of five would not result in more than a *de minimis* change in NTS cost recovery.[26]

In summary: Data provided by the BOCs shows that a cost ratio for loops used for ISDN BRI would be one. Further, the net effect of application of the small ISDN PRI loop cost ratios developed by the BOCs to the small subscriber base would be *de minimis.*

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25 US WEST at unnumbered last page ($183.78/$17.34).

26 GTE's Comments (at 3) reported that there were 300 ISDN PRI arrangements in service, and that almost triple that number is expected within two years. Even charging 900 ISDN PRI customers an additional $18 per month (GTE now charges two SLCs, so 3*$6=$18) would result in less than $200,000, an insignificant amount as compared to the 1.4 billion dollars of common line revenues GTE expects to recover during the current interstate tariff period. Even using a cost ratio of 10 would generate only $1.5 million additional dollars, still an insignificant sum, barely a tenth of a percent.

VII. CONCLUSION

A cost ratio approach accomplishes nothing toward more economically rational recovery of NTS costs, and should be rejected. The better approach is to adopt an interim application of SLCs based upon one-SLC-per-facility, while proceeding with a comprehensive reform of access charge rules that embraces economically rational recovery of NTS costs.

Respectfully submitted,

GTE Service Corporation and its
affiliated domestic telephone operating
companies

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October 30, 1995

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Certificate of Service

I, Ann D. Berkowitz, hereby certify that copies of the foregoing "Comments of GTE" have been mailed by first class United States mail, postage prepaid, on the 30th day of October, 1995 to all parties of record.

Ann D. Berkowitz